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Report Highlights:

Thailand's import demand for nonfat dry milk (NDM) and whole milk powder (WMP) continued to grow. However, actual imports of NDM will be limited by the present uncertainty in the government's tariff-rate-quota administration. This could drive up imports of WMP as a substitute for NDM.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Summary

Thailand is still pictured as a promising market for nonfat dry milk (NDM) and whole milk powder (WMP) as its increasing domestic raw milk production will meet only half of total fluid milk demand. The demand to import NDM is estimated to increase in 2003 and 2004, following favorable economic growth and an increase in population. However, as it has been in recent years, the actual amount of NDM imports for these two particular years is still limited by the uncertainty in the government's import quota administration and by a recent increase in import duties for in-quota imports. As a result, dairy processors should switch to WMP imports as a substitute. Imports of WMP are accordingly forecast to grow rapidly in 2003 and 2004.

The United States market share of NDM imports into Thailand is still less than 5 percent, due to intense market competition from cheaper sources like Australia, New Zealand, and the Eastern European countries. There are no imports of U.S. whole milk powder thus far. Market opportunities for U.S. dairy products in Thailand are in value-added dairy ingredients and whey products. The USDEC representative for Southeast Asia has successfully introduced these lower cost dairy ingredients to the Thai market in recent years.

SECTION I Situation and Outlook

Fluid Milk

Thailand's domestic raw fluid milk production should continue to grow in 2003 (620,000 metric tons) and in 2004 (660,000 metric tons), as a result of on-farm reproduction and a relatively good return from dairy activities. Despite a lack of land availability, most expanding dairy farms are purchasing roughage from the outside and/or increasing use of concentrate feed for their cows. Paralleling the anticipated larger farm size over the next 4-5 years, farm productivity may improve insignificantly due to a lack of good farm management among most dairy farms. The average milk production per lactation is relatively low at 6,000-6,500 pounds/cow.

There has been no change in government policy since the latest Annual Report. The Royal Thai Government (RTG) continues support of domestic dairy farmers through the price guarantee program, the school milk program, and a nonfat dairy milk (NDM) import quota allocation, subject to the importers/dairy product plants' domestic raw milk purchase.

The guaranteed price at the factory, which has been determined by the RTG since 1998, is 12.50 baht/kg (about 13 U.S. cents/pound). This guaranteed price is subject to a 8.5% solid nonfat (SNF) content standard. Actual prices paid by the processors will be reduced from the guaranteed price by 0.10 baht for every 0.1% of SNF content below the standard. Average prices for raw fluid milk are currently about 11.00-11.50 baht/kg (11-12 US cents/pound). As compared to the average raw milk production cost of 9.00-10.00 baht/kg (including unpaid family labor cost), dairy farming is generally profitable.

According to government sources, the school milk budget would be fixed at 7.8 billion baht (approx. US\$ 183 million) in 2003 and 2004, which generates demand for 312,000 tons of fluid milk. As a result, it is estimated that the market share of the school milk program in total plain fluid milk sales will decline from 44 percent in 2003 to 42 percent in 2004. Under this scheme, each student is currently allocated 200 cc. of fluid milk for 230 days per annum in order to improve the malnutrition problem among young people (especially those in rural areas). Suppliers/producers who are contracted for the school milk program are required to utilize domestic raw milk.

In addition, the RTG has employed the tariff rate quota (TRQ) system for nonfat dairy milk and high tariffs on substitutable products (i.e. whole milk powder and butter oil) in order to stabilize domestic milk prices.

Despite the increasing raw milk production, domestic raw milk supplies currently meet only half of total processed fluid milk demand. Based on a recent survey by trade sources, the total market for processed fluid milk (including dairy-soya blend milk) is estimated at 1.30 billion liters (about 1.3 million tons equivalent) in 2003, up 7 percent from the 2002 level. Sales of processed plain fluid milk in 2003 are likely to grow 10 percent over the 2002 level, reflecting continued economic growth (about 5-6 percent) and an increased population. Sales of dairy-soya blend milk have also increased rapidly by 15 percent in 2003 at the expense of sales of yogurt drinks (including cultured yogurt), following greater health consciousness in favor of protein from vegetable sources, especially among women and senior people.

In 2004 sales of all types of fluid milk should continue to grow due to a continued upward trend in consumption of yogurt and dairy-soya blend milk and possible increased exports of fluid milk. Following are the sales of fluid milk by type and the 2004 forecast:

	2001	2002	2003	2004 (forecast)
Plain Fluid Milk (mil. liters)	626	660	724	760
Yogurt Drink (mil. liters)	308	330	313	319
Dairy-Soya Blend Milk (mil. liters)	212	230	264	285
Total Sales (mil. liters)	1,146	1,220	1,301	1,365

While Thailand does not import fluid milk, it does export processed fluid milk to Association of Southeast East Asian Nations (ASEAN) countries (such as Indonesia, Singapore, Philippines, Malaysia, etc.) and some Middle East countries. Due mainly to its relatively cheaper transportation cost against Australia and New Zealand, Thailand's fluid milk exports have increased rapidly in recent years, from 2,912 tons in 2000 to 20,268 tons in 2002. Exports in 2003 and 2004 may increase further to 25,000-30,000 tons.

Nonfat Dry Milk

As Thailand does not manufacture nonfat dry milk (NDM), all consumption has been met by imports. NDM imports parallel the market performance of fluid milk, condensed milk, yogurt, ice cream, bakery, and other dairy products. In addition, NDM imports are also determined by the government's NDM quota administration and its costs in relation to prices for domestic raw milk and imported whole milk powder (WMP).

A growth in dairy product sales should favor NDM imports in 2003 and 2004. However, the possible increase in actual imports is still volatile as the RTG is likely to manipulate the administration of the TRQ for nonfat dry milk in an unpredictable manner. This practice usually disturbs the import flow and sometimes results in a lack of supplies for processing. For example, the RTG decided to change some conditions in quota allocation for nonfat dry milk in 2003 in the following manner:

- 1) While Thailand's TRQ amount is subject to 53,888.89 tons in 2003, the RTG announced the allocation of additional quota of 13,401.11 tons as requested by dairy processors. However, the RTG has tactically divided the actual quota for eligible dairy processors into many slots without advance notice. Fluid milk processors and trading importers are not eligible to receive quota this year as the RTG is likely to force fluid milk processors to utilize domestic milk only while trading importers are considered middlemen. The eligible importers under the 2003 TRQ system include condensed milk processors, other non-fluid milk processors (such as ice cream makers, chocolate or coffee beverage processors, and bakery manufacturers), dairy-for-export processors, and yogurt producers. In addition, each company which receives the import quota must divide its import shipments equally into 4 slots for the whole year. This means that a shipment can be done in every three months;
- 2) The RTG applied a 20 percent tariff rate on the first lot of in-quota imports in 2003 (53,888.89 tons), instead of the previous amount of 5 percent seen in recent years. The 20-percent-rate is the bound rate that Thailand has committed to with the WTO. However, the Cabinet agreed on September 30, 2003, to lower the tariff rate back to 5 percent for the additional quota of 13,401.11 tons.

This conservative administration of the import quota should limit NDM imports to 60,000-70,000 tons in 2003 and 2004. Thailand controls NDM imports through the quota allocation system which is subject to the WTO commitments. Thailand is scheduled to increase its minimum import quotas for nonfat dry milk from 45,000 tons in 1995 to 55,000 tons in 2004. The tariff rates for in-quota imports committed to WTO has been 20 percent from 1995 to 2004, while those for non-quota imports will reach 216.0% in 2004, from 237.6% in 1995.

Thus far Australia and New Zealand have been regular suppliers of NDM imported into Thailand, due to their price and quality competitiveness. Although imports of U.S. nonfat dry milk in 2002 and 2003 have increased, the U.S. still captures only a small market share of the Thai market (less than 5 percent), as its prices are normally uncompetitive, except when the Dairy Export Incentive Program (DEIP) is available. Due to BSE disease problems and uncertain supply availabilities, the EU's market share also dropped in recent years with imports from Australia, New Zealand, and the Eastern European countries (such as the Czech Republic and Poland) filling the void. Imports from these three major suppliers (Australia, New Zealand, and the Czech Republic) currently account for 55 percent of total Thai imports, against about 20 percent from the EU.

Whole Milk Powder

Whole milk powder (WMP) is mostly used for making ice cream, recombined fluid milk, yogurt, and bakery products. Like nonfat dry milk, Thailand does not produce dry whole milk powder at the moment.

Unlike nonfat dry milk, the government does not apply the tariff rate quota (TRQ) system to WMP. However, the government increased the tariff rate on WMP from 5% (which is equivalent to that applied for in-quota NDM imports) to 18% in 2000 in order to prevent substitution of WMP for NDM in several dairy products. Due to an increase in the import duties on a portion of nonfat dry milk imported under the TRQ (from 5 to 20 percent), trade sources reported that dairy processors should partly substitute NDM with WMP. As a result, WMP imports are forecast to increase to 35,000-45,000 tons in 2003 and 2004.

Due to intense price competition, there were no imports of U.S. WMP in 2003. Major suppliers for WMP into Thailand in 2003 were New Zealand, Australia, and the Czech Republic, accounting for about three-quarters of total imports. The EU market share of the Thai market is likely to remain unchanged at 20 percent in 2003.

Market Opportunities for U.S. Dairy Products

There has not been a major change in market opportunities for U.S. dairy products from the previous reports. There is a niche market for value-added products. Most of the major dairy manufacturers have introduced value added products such as high-calcium/low-lactose/low-fat with added vitamins in milk, yogurt, and infant formula. Probiotics or healthy bacteria are also being heavily promoted, especially in cup yogurt.

Market opportunities for U.S. dairy products remain located in the value-added dairy ingredients category such as whey protein concentrates, high calcium milk minerals, lactoferrin, and lactoperoxidase. Lower cost dairy ingredients such as sweet whey powder, whey permeate, and lactose are also needed to reduce production costs. The USDEC representative for Southeast Asia has been active in promoting U.S. dairy products in the region, especially dairy food ingredients, through trade service, sending trade delegations to visit U.S. manufacturers, and by providing various educational seminars. Because of these

promotions, the U.S. has become the leading supplier of whey to Thailand since 1995. Its market share was about 34-35 percent in 2002 and 2003. Meanwhile, the market size for whey in Thailand should continue to grow by 5-10 percent annually. Total whey imports should be around 48,000-52,000 tons in 2003 and 2004.

Some U.S. dairy products such as ice cream, NDM, and whey powder are also well known in Thailand. In general, importers, manufacturers and consumers are satisfied with the quality and value of U.S. dairy products. However, some negative views still exist about certain dairy products, especially dairy ingredients as follows: a) product inconsistency; b) varying availability; and c) less-superior packaging, compared to products from Europe, Australia, and New Zealand.

SECTION II: Statistical Tables

Table 1: PS&D Table for Fluid Milk

PSD Table

Country	Thailand					
Commodity	Dairy, Milk, Fluid					
	(1000 HEAD)		(1000 M			
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official	Estimate	DA Official	Estimate	DA Official	Estimate
Market Year Begin	01/2002		01/2003		01/2004	
Cows In Milk	0	230	0	240	0	250
Cows Milk Production	0	580	0	620	0	640
Other Milk Production	0	0	0	0	0	0
TOTAL Production	0	580	0	620	0	640
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	0	580	0	620	0	640
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	20	0	20	0	28
TOTAL Exports	0	20	0	20	0	28
Fluid Use Dom. Consum.	0	510	0	550	0	575
Factory Use Consum.	0	50	0	50	0	37
Feed Use Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumpti	0	560	0	600	0	612
TOTAL DISTRIBUTION	0	580	0	620	0	640
Calendar Yr. Imp. from U.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Table 2: Exports of Fluid Milk

Export Trade Matrix

Country Thailand

Commodity Dairy, Milk, Fluid

Time Period	Jan-Dec	Units:	Tons
Exports for:	2002		2003
U.S.	0	U.S.	0
Others		Others	
Cambodia	4570	Cambodia	2040
Burma	396	Burma	858
Indonesia	4548	Indonesia	2918
Malaysia	27	Malaysia	0
Singapore	1003	Singapore	735
Philippines	9440	Philippines	6572
Laos	51	Laos	36
Taiwan	17	Taiwan	0
China	12	China	0
Total for Others	20064		13159
Others not Listed	4		58
Grand Total	20068		13217

Note: The period of exports in 2003 covers January-July.

Table 3: PS&D Table for Nonfat Dry Milk

PSD Table**Country****Thailand****Commodity****Dairy, Milk, Nonfat Dry**

(1000 MT)

Market Year Begin	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [	Estimate [01/2002	DA Official [	Estimate [01/2003	DA Official [	Estimate [01/2004
Beginning Stocks	12	12	12	20	12	11
Production	0	0	0	0	0	0
Intra EC Imports	7	0	8	0	0	0
Other Imports	60	76	65	65	0	75
TOTAL Imports	67	76	73	65	0	75
TOTAL SUPPLY	79	88	85	85	12	86
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumptio	66	67	72	73	0	80
Other Use, Losses	1	1	1	1	0	1
Total Dom. Consumption	67	68	73	74	0	81
TOTAL Use	67	68	73	74	0	81
Ending Stocks	12	20	12	11	0	5
TOTAL DISTRIBUTION	79	88	85	85	0	86
Calendar Yr. Imp. from U.	1	5	1	8	0	10
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Table 4: Imports of Nonfat Dry Milk

Import Trade Matrix

Country Thailand

Commodity Dairy, Milk, Nonfat Dry

Time Period	Jan-Dec	Units:	Tons
Imports for:	2002		2003
U.S.	5157	U.S.	4752
Others		Others	
Australia	23122	Australia	7823
Canada	3200	Canada	1125
Czechs Rep.	8479	Czechs Rep.	5508
Germany	2321	Germany	2061
Switzerland	150	Switzerland	1075
Ireland	1500	Ireland	819
Netherlands	3519	Netherlands	3594
New Zealand	21743	New Zealand	8106
Poland	3535	Poland	250
U.K.	2376	U.K.	1501
Total for Others	69945		31862
Others not Listed	6521		6880
Grand Total	76466		38742

Note: The period of imports in 2003 covers January-July.

Table 5: PS&D Table for Whole Milk Powder

PSD Table**Country****Thailand****Commodity****Dairy, Dry Whole Milk Powder** (1000 MT)

Market Year Begin	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [	Estimate [01/2002	DA Official [	Estimate [01/2003	DA Official [	Estimate [01/2004
Beginning Stocks	6	6	6	9	7	11
Production	0	0	0	0	0	0
Intra EC Imports	0	0	0	0	0	0
Other Imports	32	35	34	37	0	40
TOTAL Imports	32	35	34	37	0	40
TOTAL SUPPLY	38	41	40	46	7	51
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	31	31	32	34	0	37
Other Use, Losses	1	1	1	1	0	1
Total Dom. Consumption	32	32	33	35	0	38
TOTAL Use	32	32	33	35	0	38
Ending Stocks	6	9	7	11	0	13
TOTAL DISTRIBUTION	38	41	40	46	0	51
Calendar Yr. Imp. from U.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Table 6: Imports of Whole Milk Powder

Import Trade Matrix

Country Thailand

Commodity Dairy, Dry Whole Milk Powder

Time Period	Jan-Dec	Units:	Tons
Imports for:	2002		2003
U.S.	0	U.S.	0
Others		Others	
Australia	10171	Australia	3092
Czechs Rep.	2801	Czechs Rep.	1166
Germany	85	Germany	198
France	192	France	285
U.K.	3158	U.K.	3085
Netherlands	1727	Netherlands	550
New Zealand	12728	New Zealand	11625
Denmark	501	Denmark	217
Switzerland	1000	Switzerland	375
Belgium	1400	Belgium	275
Total for Others	33763		20868
Others not Listed	1394		684
Grand Total	35157		21552

Note: The period of imports in 2003 covers January-July.

End of Report